

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 98-603

January 31, 2000

PUBLIC UTILITIES COMMISSION  
Investigation of Stranded Costs, Transmission  
And Distribution Utility Revenue Requirements  
And Rate Design of Swan's Island Electric  
Cooperative, Inc.

ORDER

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

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**I. SUMMARY**

By way of this order we approve transmission and distribution (T&D) utility rates for Swan's Island Electric Cooperative, Inc. (SIEC) effective March 1, 2000, the beginning of retail access to generation services in Maine. Under the rate schedules proposed by SIEC, it will recover \$277, 626 in annual revenue requirements. The average T&D rate per kWh for all customers will be 14.094¢/kWh, with Swan's Island residential rates being 13.660¢/kWh, and Frenchboro residential rates being 17.676¢/kWh.

**II. PROCEDURAL BACKGROUND**

The provisions of the Electric Restructuring Act require the Commission to conduct an adjudicatory proceeding to establish transmission and distribution utility revenue requirements, and to design stranded costs and rates for each consumer-owned electric utility (COU), prior to the start of retail access in March of 2000. 35-A M.R.S.A. §§ 3508(8), 3509(2).

On August 10, 1998, the Commission issued a Notice of Investigation which initiated a stranded costs, transmission and distribution utility revenue requirements and rate design proceeding for SIEC. That notice provided interested persons with an opportunity to intervene in this matter. The Office of Public Advocate (OPA) filed a petition to intervene which was granted without objection.

On September 4, 1998, an initial case conference was held to determine the scope and processing of the case. At this conference, it was agreed that the parties would attempt to resolve the case through an informal process rather than through formal litigation. In making this determination, the parties recognized that SIEC, as a COU, operates under different legal and operational conditions than do the investor-owned utilities (IOUs). Its customers are its owners, which gives its customers more control over its decisions and actions than those of IOUs'. In addition, COUs, under 35-A M.R.S.A. § 3502, can change rates at their discretion with limited

Commission oversight. Finally, instead of earning an overall rate of return on plant investment, the rural electrification COUs maintain a reserve to provide for debt service coverage. This reserve is limited to the level necessary to maintain debt service coverage as required by the lender and in no case may exceed 40% of the total assets less reserves. 35-A M.R.S.A. § 3503(D). The necessary level is reflected when calculating revenue requirements. Therefore, when we reduce one component of revenue requirements, SIEC may offset the reduction by increasing its reserve requirements to meet a reasonable margin allowance.

SIEC's initial filing was made on November 10, 1998. During the past year, a series of technical conferences were held among the Advisory Staff and the parties to discuss the filings and further develop the case. A general consensus on principles, final rates and tariff language was reached and on October 13, 1999, SIEC submitted a Chapter 120 revised December 14, 1999 filing, reflecting these agreements.

### III. DISCUSSION

#### A. Revenue Requirements

SIEC based its revenue requirements on actual 1997 operating information as reported in its annual report filed with the Commission. It did not initially make any adjustments to this data. The parties recommended limited changes to the revenue requirements to remove one-time costs and adjust revenues and expense that were unlikely to occur in future years. SIEC, in its final tariffs and supporting workpapers, reflected the changes agreed to by the parties.

We have reviewed SIEC's revised revenue requirement filing and are satisfied that this level of revenue is required for SIEC to perform its public utility service and to attract necessary capital on just and reasonable terms. We approve rates intended to collect revenue requirements of \$277,626.

#### B. Rate Design

In its filing, SEIC proposes rate design changes to both class allocations and rate structures to bring its T&D rates in line with its costs of service. It is worth noting that SIEC's last rate design and/or cost allocation filings were done prior to 1983. In this filing, SIEC's proposed cost-based T&D rates would decrease the effective average total rate (including both T&D and power supply) for the Swans Island residential class by 0.3% and decrease the rate for the Frenchboro residential class by 2%. SIEC decreases the residential minimum charge and proposes to charge identical rates to all customers, differentiated only by identifiable cost of service differences.<sup>1</sup>

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<sup>1</sup> Area lights and street lights are not included in this proposal.

*In Maine Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 116 (March 19, 1999), the Commission concluded that a smooth and successful transition to retail access is more likely to occur if T&D rate design undergoes only minimal changes and causes no customers to experience bill increases as a result (the "no losers" principle). SIEC's proposed revisions to class allocations and to rate structures will necessarily result in both decreases and increases to the bills of individual customers, thereby violating the "no-losers" principle. To mitigate bill impacts, two steps were undertaken. First, SIEC placed a cap of 5% on the increase to each rate group's average total rate increase (including both T&D and power supply). Because no non-lighting rate case class increase exceeded the 5% cap, SIEC did not phase in rates.

Second, SIEC calculated the bill impacts of its rates on customers of varying sizes in each rate class. In some instances, a small number of customers continue to have significant increases.<sup>2</sup>

As discussed above, we desire that customers experience a smooth transition to retail access. However, we recognize COUs' unique legal and operational conditions, and we accept SIEC's assertion that the advantages of bringing rates into balance with costs will offset negative impacts caused by bill increases. Therefore, we will deviate from our stated "no-losers" principle and allow SIEC to carry out its proposed rate re-design when developing its T&D rates.

#### C. Transmission/Generation Clauses

SIEC has included in its rate schedules an automatic adjustment clause to reflect changes in the cost of transmission. This clause is necessary because generation providers wheel power to SIEC's territory through IOUs contiguous to SIEC. SIEC has agreed to assume the IOU's wheeling charge so that the provider need not charge its customers a premium to cover this additional transportation cost. The charge under this tariff will change each month to reflect actual costs charged to SIEC in the previous month.

SIEC currently adjusts its rates monthly to reflect fluctuating costs of purchased power. Therefore, a transmission charge that changes monthly will not be a new pricing feature to SIEC's customers.

We recognize that this transmission wheeling charge is an exogenous cost to SIEC. We accept SIEC's representation that its customers are accustomed to monthly rate fluctuations, and we accept SIEC's treatment of this charge.

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<sup>2</sup> For example, certain street light bills would increase by 40% or more.

**IV. CONCLUSIONS**

We have reviewed SIEC's proposed rate schedules filed on December 14, 1999, and conclude the rates contained therein are just and reasonable and will provide a level of revenue necessary for SIEC to perform its public utility service and to attract necessary capital on just and reasonable terms.

Accordingly, we

**O R D E R**

That SIEC's Sheet 2, 1<sup>st</sup> Revision; Sheet 4, 1<sup>st</sup> Revision; Sheet 5, Original; Sheet 6, Original; Sheet 7, Original, filed on October 13, 1999 and December 14, 1999, effective March 1, 2000, copies of which are attached hereto, are hereby approved to take effect for service provided on or after March 1, 2000.

Dated at Augusta, Maine, this 31st day of January, 2000.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Nugent  
   Diamond